

## Message Text

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SUBJECT: LNG INVESTMENT PROPOSAL BY US FIRM

SUMMARY: EMBOFF RECENTLY MET WITH PRESIDENT OF US ENGINEERING FIRM SIGMA CHAPMAN TO DISCUSS THE COMPANY'S PROPOSAL TO BUILD AN LPG SEPARATION PLANT AND AN LNG PROCESSING PLANT IN OMAN DURING THE NEXT FIVE YEARS. TOTAL CAPITAL INVESTMENT INVOLVED IS ON THE ORDER OF \$250 MILLION. WHILE SIGMA CHAPMAN WOULD HAVE CONTROLLING INTEREST IN THIS VENTURE, OTHER US AND FOREIGN FIRMS AND OMANGOV WOULD ALSO HAVE SHARE IN EQUITY. SEVERAL OTHER PROPOSALS TO EXPLOIT OMAN'S NATURAL GAS HAVE FALLEN THROUGH, AND SIGMA CHAPMAN PROJECT HAS SOME AREAS OF UNCERTAINTY. END SUMMARY.

1. EMBOFF MET RECENTLY WITH W.A. KRAUSE, PRESIDENT OF TEXAS-BASED ENGINEERING FIRM SIGMA CHAPMAN. SIGMA CHAPMAN HAS MADE A PROPOSAL TO THE OMANGOV TO BUILD LPG AND LNG PROCESSING FACILITIES TO BE COMPLETED DURING THE NEXT FIVE YEARS.

2. THE FIRST PHASE OF THE TWO-STAGE PROJECT WOULD BE THE CONSTRUCTION OF SKID-MOUNTED GAS SEPARATION PLANT AT THE FAHUD OILFIELDS, REQUIRING A CAPITAL INVESTMENT OF \$70 MILLION. SUBSEQUENTLY, SIGMA CHAPMAN WOULD LAY A NATURAL GAS PIPELINE FROM FAHUD TO THE COAST AND BUILD AN LNG PROCESSING PLANT

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NEAR MUSCAT, FOR A TOTAL PHASE II CAPITAL OUTLAY OF \$150 TO

\$175 MILLION. SIGMA HOPES TO USE 20" PIPE WHICH WAS SOLD TO OMANGOV BY MANNESMANN.

3. MAIN PURPOSE OF THIS INVESTMENT IS TO EXPORT LNG TO JAPAN. NATURAL GAS FROM FAHUD FIELD WOULD ALSO BE USED TO FURNISH FUEL FOR A DESALINIZATION PROJECT AND A POWER PLANT NOW BEING CONSTRUCTED NEAR MUSCAT. KRAUSE REMARKED THAT CAMCO, A TEXAS-BASED OILFIELD EQUIPMENT PRODUCERS, WOULD ALSO PARTICIPATE IN THE DEAL, AND SIGMA CHAPMAN HOPES TO OBTAIN A JAPANESE INVESTMENT PARTNER AS WELL. ALTERNATIVELY, SIGMA WOULD SEEK A GERMAN PARTNER IN ORDER TO SELL LNG IN FRG. OMANGOV WOULD HOLD 35 PERCENT OF EQUITY IN THE FIRST STAGE OF THE VENTURE AND WOULD PAY FOR ITS SHARE OF THE EQUITY BY PROVIDING ONE MILLION BARRELS OF CRUDE TO SIGMA CHAPMAN IN 1976 AND 1977, WHICH WOULD BE RESOLD AT THE PREVAILING WORLD MARKET PRICE. KRAUSE SAID THAT OMANGOV CRUDE OIL CONTRIBUTION WAS ESSENTIAL IN ORDER TO OBTAIN NECESSARY FINANCING FROM US AND EUROPEAN BANKS.

4. SIGMA CHAPMAN DOES NOT SEE GREAT DIFFICULTIES IN HANDLING TECHNICAL ENGINEERING FEATURES OF CONSTRUCTION. MAIN DIFFICULTY ACCORDING TO KRAUSE IS THE SUSPICION OF LEADING MEMBERS OF OMANGOV TOWARD FOREIGN COMPANIES AFTER THE EXCESSIVE PRICING BY MANNESMANN OF PIPES RECENTLY SOLD TO THE OMANGOV AND THIS RESERVE IS CAUSING DEAL TO BE DELAYED. KRAUSE REMARKED THAT WHOLE DEAL WOULD FALL THROUGH UNLESS THE OMANGOV APPROVED THE CONTRACT WITHIN THE NEXT THREE MONTHS, SINCE RAPIDLY RISING COSTS AND FALLING PETROLEUM PRODUCTION AT FAHUD OIL FIELDS WOULD MAKE LPG PLANT UNPROFITABLE UNLESS IT GOES ONSTREAM BY 1978.

5. COMMENT: THIS IS NOT THE FIRST TIME THAT A FOREIGN COMPANY HAS PROPOSED TO DEVELOP OMAN'S NATURAL GAS RESOURCES, AND BOTH THE TESORO AND GAZOCEAN DEALS WHICH WERE PROPOSED IN 1974 SEEM TO HAVE FALLEN THROUGH. THERE ARE A NUMBER OF UNCERTAINTIES ABOUT THE SIGMA CHAPMAN PROPOSAL, RANGING FROM THE FIRM'S ABILITY TO MARKET LNG IN JAPAN TO THE RELATIVE LACK OF PROFIT IN THE FIRST PHASE OF THE PROJECT, THAT COULD SCUTTLE THIS DEAL AS WELL.

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6. ACTION REQUESTED: DEPARTMENT TO GIVE US A READING ON THE FINANCIAL AND OPERATIONAL SOUNDNESS OF SIGMA CHAPMAN. SINCE SIGMA CHAPMAN IS PRIVATELY HELD, WE DO NOT HAVE ANY INFORMATION ON THE COMPANY HERE, AND WE NEED TO BE PREPARED IN CASE OMAN GOVT ASKS US FOR REFERENCES.

7. MEMCON GIVING FURTHER DETAILS OF SIGMA CHAPMAN PROPOSAL IS BEING POUCHED SEPARATELY.

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